

Minnesota

Department of Finance

July 2001

Minnesota's FY2001 Revenues Fall Below Forecast

Minnesota's net general fund receipts for F.Y. 2001 are now estimated to total \$12.488 billion, \$37 million (0.3 per cent) less than forecast. The lower than expected revenue reduces the amount available for the sales tax rebate. Following adjustments for legislative action during the 2001 regular and first special session, the projected rebate amount was \$828 million. The \$37 million revenue shortfall reduces the amount of the 2001 sales tax rebate to \$791 million.

Summary of Tax Receipts: (Fiscal Year 2001)

	Forecast	Actual	Variance	Percent
	-----(\$ in millions)-----			
Income	5,897.8	5,935.3	37.5	0.6
Sales	3891.6	3,804.3	(87.3)	(2.2)
Corporate	819.7	734.0	(85.6)	(10.5)
Motor Vehicles	519.4	545.5	26.1	5.0
Other	<u>1,396.1</u>	<u>1,469.0</u>	<u>72.8</u>	<u>5.2</u>
TOTAL	12,524.6	12,488.1	(36.5)	(0.3)

Receipts from the sales tax and the corporate income tax fell below forecast by \$87 million and \$86 million, respectively. A \$4 million shortfall in current withholding and estimated tax individual income tax payments was offset by a \$42 million net gain in refunds and final payments for tax year 2000. The motor vehicle sales tax, and other revenues also exceeded estimates.

General fund revenues for the fourth quarter of F.Y. 2001 were \$23 million above forecast. (see page 4) Revenues for the four major revenues during the past quarter were \$45 million below forecast, but that shortfall was offset by a \$68 million positive variance in other revenues. Other revenues were boosted by one-time payments, including an additional \$16 million in tobacco payments and an \$8 million legal settlement. Without that revenue, state receipts for April, May, and June would have been less than forecast in February.

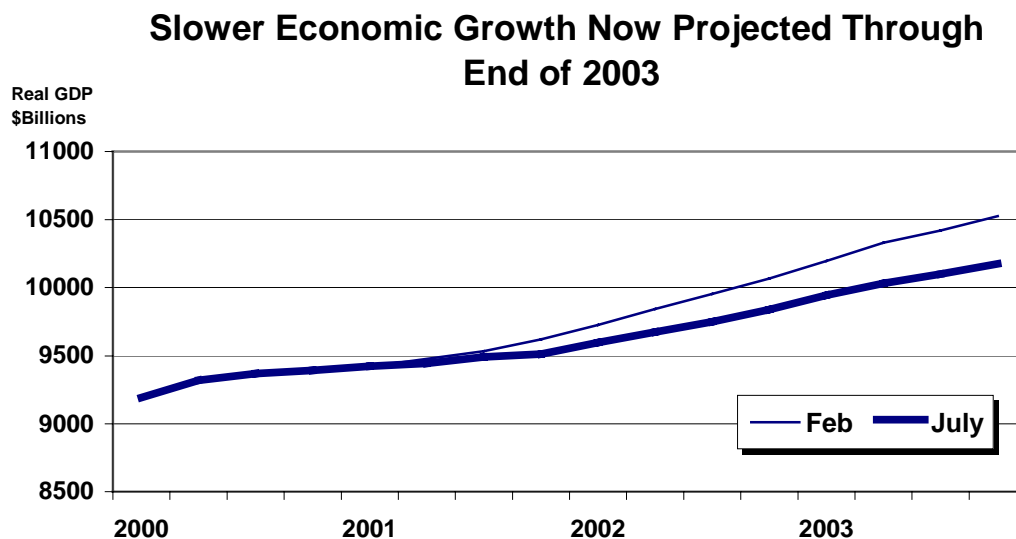
All F.Y. 2001 results are preliminary and subject to change. As is customary in this first report of receipts for the entire fiscal year, forecasts for some revenue sources have been reduced to adjust for anticipated accruals.

Slower Growth Now Forecast for Coming Biennium

The U.S. economy has been a disappointment thus far in 2001. At the start of the year almost everyone conceded first quarter growth would be weak, but few expected economic stagnation to carry into the summer. Most anticipated a “V” shaped recovery, with real GDP growth rates at 3 percent or higher by fall. Anticipated interest rate cuts, a likely tax cut, a strengthening global economy, and continued productivity growth were believed sufficient to quickly reverse any slowdown.

Now, six months later, the consensus outlook for the remainder of 2001 is much less optimistic. Payroll employment has fallen an average of 90,000 jobs per month during the past three months, we have lost 347,000 manufacturing jobs since March, and the unemployment rate is now 4.5 percent and climbing. Initial jobless claims are averaging more than 400,000 per week, and active unemployment claims exceed three million. A “V” shaped recovery is no longer possible, and few see an end to the current economic stagnation before the fourth quarter. Most forecasters have also cut back their outlooks for 2002.

July's Control forecast from Data Resources Inc. (DRI), Minnesota's national economic consultant, reflects this more subdued consensus outlook. DRI now expects real GDP to grow in 2001 by just 1.6 percent, down from February's forecast of 2.1 percent. Along with most other forecasters they have also significantly reduced their outlook for the future. February's Control forecast called for growth rates of 4.0 percent and 4.8 percent in 2002 and 2003 respectively. Now real GDP growth rates of 2.6 percent in 2002, and 3.6 percent in 2003 are expected.

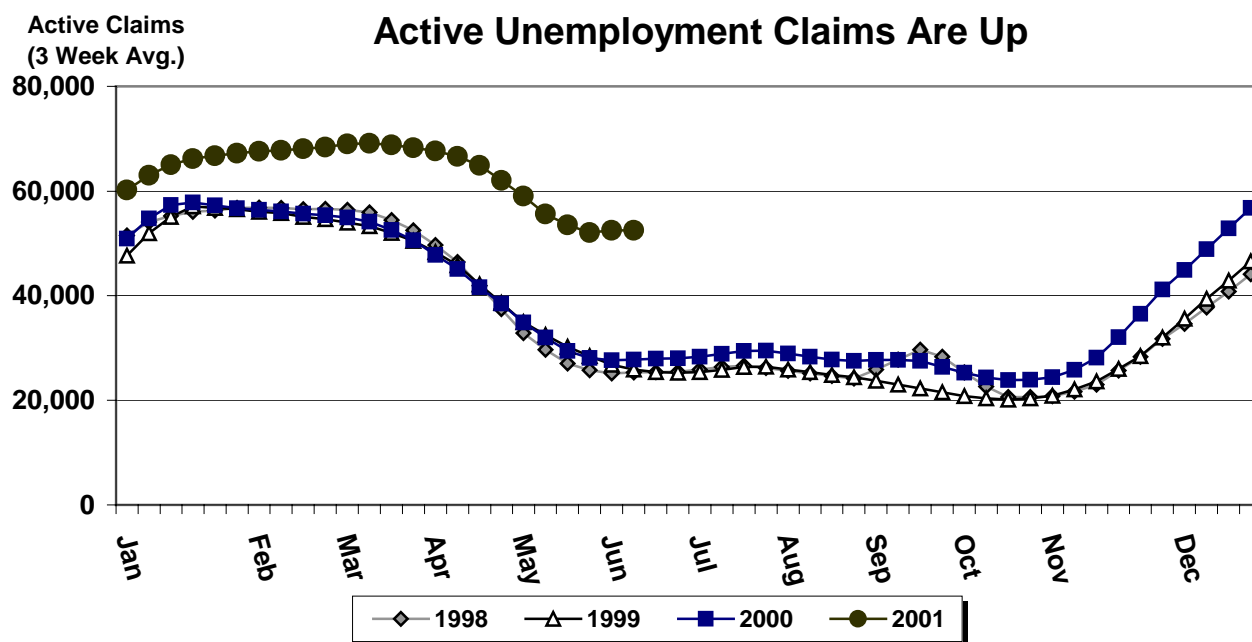


Only a minority believe we are currently in a recession, but there are no guarantees. There is some good news. Consumer spending continues to hold up well and the inventory correction is nearing completion. But business investment spending and exports remain weak, and significant downside risks remain, particularly in the international sector. And, as DRI notes, the question of

whether we slide into a recession is now “somewhat academic” since in their forecast U.S. economic growth will have averaged only 1.4 percent for six quarters through the end of 2001, a record “bad enough to qualify as a recession by most standards.” Right now DRI believes the economy is “about as close as it can be to recession without actually showing any quarters of negative growth.” They assign their July Control a probability 50 percent. An alternative in which the economy is already in recession is given a probability of 40 percent.

Minnesota's Labor Market Has Weakened

Employment in Minnesota always increases in the spring and early summer as seasonal jobs open, but this year job growth has been slower than usual. On a seasonally adjusted basis, only 400 net new jobs were added in May and seasonally adjusted employment has grown by a net of just 7,500 jobs since December. Job growth has been at least three times greater in recent years. Minnesota's unemployment rate in May was 3.9 percent, up 0.6 percent from last year's May report, but still 0.6 percent below the U.S. average.



Data on active unemployment claims provide another measure of how Minnesota's economy is weakening. The number of individuals drawing unemployment has fallen some from its seasonal high, but mid-June reports show more than 52,000 receiving unemployment compensation, nearly twice as many as in June in each of the last three years.

Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	2001 Fiscal Year to Date			April – June 2001		
	Forecast	Actual	Variance	Forecast	Actual	Variance
<u>Four Major Revenues:</u>	<u>Revenues</u>	<u>Revenues</u>	<u>Act-Fcst</u>	<u>Revenues</u>	<u>Revenues</u>	<u>Act-Fcst</u>
Individual Income Tax						
Withholding	4,806,038	4,792,194	(13,844)	1,178,138	1,153,915	(24,224)
Declarations	1,212,900	1,222,627	9,727	478,423	487,305	8,882
Miscellaneous	692,161	746,787	54,625	580,422	635,047	54,625
Gross	6,711,100	6,761,608	50,508	2,236,983	2,276,266	39,283
Refunds*	813,317	826,317	13,000	744,125	757,125	13,000
Net*	5,897,783	5,935,290	37,507	1,492,858	1,519,141	26,283
Corporate & Bank Excise						
Declarations	803,530	744,666	(58,864)	196,500	177,416	(19,084)
Miscellaneous	150,238	149,573	(665)	3,500	20,335	16,835
Gross	953,768	894,239	(59,529)	200,000	197,752	(2,248)
Refunds*	134,100	160,196	26,096	14,600	47,138	32,538
Net*	819,668	734,043	(85,625)	185,400	150,613	(34,787)
Sales Tax						
Gross	4,096,603	4,037,324	(59,280)	1,189,370	1,133,925	(55,445)
Refunds	204,965	233,007	28,042	43,162	55,198	12,036
Net	3,891,638	3,804,316	(87,322)	1,146,208	1,078,727	(67,481)
Sales Tax Rebate	1,500	1,236	(264)	(7)	(436)	(443)
Motor Vehicle Sales*	519,400	545,466	26,066	136,910	167,585	30,675
<u>Other Revenues:</u>						
Inherit/Gift/Estate	70,000	54,229	(15,771)	24,627	12,788	(11,839)
Liquor/Wine/Beer	60,881	60,961	80	19,446	19,940	494
Cigarette & Tobacco	179,201	177,287	(1,915)	55,123	53,602	(1,521)
Deed and Mortgage	147,300	159,328	12,028	34,290	45,231	10,941
Insurance Gross Earnings	177,334	190,881	13,547	69,852	78,104	8,252
Lawful Gambling	61,371	59,876	(1,496)	21,165	20,220	(945)
Health Care Surcharge	127,209	129,337	2,128	40,693	43,274	2,581
Other Taxes	3,383	3,214	(169)	2,479	2,476	(3)
General Fund RTC Revenues*	2,217	10,454	8,237	(6,200)	3,092	9,292
Income Tax Reciprocity	42,610	42,610	0	0	0	0
Investment Income	181,000	196,428	15,428	44,750	58,379	13,629
Tobacco Settlement	116,112	132,133	16,021	0	16,021	16,021
Other and Unallocated*	247,824	272,116	24,292	22,814	46,796	23,982
Other Subtotal*	1,416,442	1,488,852	72,410	329,038	399,922	70,884
Other Refunds	21,857	21,161	(696)	8,827	10,849	2,022
Other Net*	1,394,585	1,467,691	73,106	320,211	389,073	68,862
Total Gross	13,698,814	13,728,725	29,911	4,092,295	4,175,015	82,720
Total Refunds	1,174,239	1,240,682	66,443	810,714	870,311	59,596
Total Net	12,524,575	12,488,043	(36,532)	3,281,580	3,304,704	23,124

* forecast amounts adjusted for accruals